

Why a Cost Segregation Study?

Owners of commercial property can gain tremendous tax benefits by using a popular asset depreciation technique called COST SEGREGATION. Using this method, buyers view a real estate acquisition as consisting not only of land, but also tangible personal property and land improvements. The tax savings come from accelerated depreciation deductions and possible easier property write-offs.

A tax-payer can use COST SEGREGATION when constructing a building, buying an existing one or, in certain circumstances, years after disposing of one as long as the year of disposition is still open under the statute of limitations.-Rev. Proc. 2004-11 (re change in method of accounting)



David H Farmer has been active in the real estate industry since 1989 and has been a successful investor since 1991. A Graduate of the University of Florida, he has been recognized with multiple awards by the American Society of Civil Engineers for his technical writing. Mr.

Farmer holds the following distinguished designations:

- Professional Engineer
- Licensed General Contractor
- Florida Green Builder
- Florida Qualified Storm Water Inspector

Andrew Zeck brings diverse real estate experience and analytical skills to the KDA team. After receiving his MBA from Emory University in 1989, Andrew worked in corporate real estate for Taco Bell, Starbucks, TGI Fridays, and Winn-Dixie in many major markets in the U.S. He has 18 years of experience in site acquisition, contract negotiation, strategic analysis, leasing and practical development experience. As a practitioner, he understands the nuances of real estate development and the benefits of informed problem solving.

KDA will perform a complimentary feasibility assessment to determine if cost segregation is of benefit to you. If not, we will walk away at no cost to you. That's how confident we are that we can

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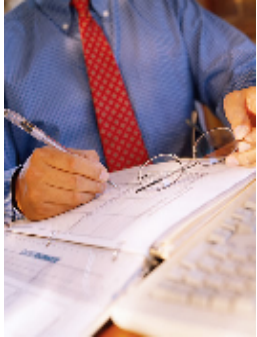
Cost Segregation How Can It Benefit You?



If you own commercial real estate and pay federal income taxes, it is in your best interest to learn how a Cost Segregation Study can unlock hidden tax savings hiding within your walls...

WHAT IS COST SEGREGATION?

Cost Segregation studies are one of the most valuable yet tax strategies available to owners of commercial real estate today. This increasingly popular strategy, offers facility owners the opportunity to defer taxes, reduce their overall current tax burden, and free up capital by improving their current cash flow.



While most CPAs are familiar with cost segregation, they recognize that in order for their client to fully benefit, it is usually necessary to seek an engineering specialist to provide an independent report. Virtually every taxpayer who owns, constructs, renovates, or acquires a commercial real estate structure stands to benefit from a Cost Segregation study.

The preparation of Cost Segregation studies requires knowledge of both the construction process and the tax law involving property classifications for depreciation purposes.

"Each \$100,000 in assets reclassified from a 39-year recovery period to a five-year recovery period results in approximately \$22,000 in net-present-value savings, assuming an 8% discount rate and a 40% marginal tax rate"- *Journal of Accountancy*, Copyright 2005 by the AICPA

WHAT TYPES OF BUSINESSES MAY BENEFIT MOST FROM A STUDY?

- *Apartment Buildings/Complex*
- *Restaurants including fast food*
- *Hotels*
- *Office Buildings*
- *Car Dealerships*
- *Resorts*
- *Retail /Specialty Stores/Malls*
- *Warehouse*

HOW IT WORKS

Keystone begins with a complimentary feasibility assessment to make certain that a Cost Segregation Study will be of benefit. We then make a site visit to the subject property and do a detailed non-intrusive survey to identify assets and their costs, and classify those assets for federal tax purposes. Certain costs previously classified as subject to 39-year depreciable life, can instead be classified as personal property or land improvements, with a 5, 7, or 15-year rate of depreciation using accelerated methods. An "engineering-based" study allows a building owner to depreciate a *new or existing* structure in the shortest amount of time permissible under current tax laws.

The benefits of a Cost Segregation study include :

- *An immediate increase in cash flow*
- *A reduction in current tax liability*
- *The deferral of taxes*
- *The ability to reclaim "missed" depreciation deductions from prior years (without having to amend tax returns)*

In the IRS Cost Segregation Audit Techniques Guide (ATG), the prime attribute of a high-quality cost segregation study is "preparation by an individual with expertise and experience."

In late 2004, the IRS released the guidelines their agents must follow for audits of Cost Segregation studies. This guide reviews the methodologies recognized by the IRS for asset allocation. It examines the various characteristics of a quality study. Referring to the "detailed engineering approach," the ATG states: "In general, it is the most methodical and accurate approach, relying on solid documentation and minimal estimation."

By engaging the expertise of Keystone, property owners can be assured that their study will stand up to the strictest scrutiny of IRS auditors.

According to the Internal Revenue Service "...*Preparation of cost segregation studies requires knowledge of both the construction process and the tax law involving property classifications for depreciation purposes. In general, a study by a construction engineer is more reliable than one conducted by someone with no engineering or construction background....*"

HOW CAN I BENEFIT FROM COST SEGREGATION?

The key benefits of Cost Segregation are:

- Substantial Reduction in tax liabilities – (often hundreds of thousands of dollars for larger properties)
- Immediate increased cash flow through accelerated depreciation
- Corrects misclassified assets and provides opportunity to claim missed "catch up depreciation" from prior years in the current year
- Renovations, remodeling and replacement will be less costly due to detailed breakdown of building components
- Real estate property taxes may be reduced
- Demolition and rehabilitation allows property owners to write off certain assets as opposed to capitalizing those assets
- An independent, objective, third party report that will withstand IRS scrutiny.

If you own a facility, a Cost Segregation study is one of the most significant, but often overlooked opportunities to reduce your income tax liabilities.



Call Keystone today for your complimentary feasibility assessment. Take the first step to putting *your* money back into *your* pocket.